



Arizona State Retirement System

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ASRS follow-up to The Arizona Republic series on public pensions

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The Arizona State Retirement System and other Arizona public pension plans were the subject of a series of articles in *The Arizona Republic* newspaper November 14-20, 2010.

The ASRS would like to provide the following additional information on the various issues raised.

Issue A: Fairness. Are pension benefits earned by public sector employees overly generous or out-of-line with what is provided in the private sector?

ASRS response: The average pension benefit paid by the ASRS is approximately \$19,800 per year, or about \$1,640 a month, and is paid for 50% by the employee and is earned only after many years of service.

ASRS pension benefits are determined by a formula that accounts for an employee's years of service and average ending salary. Simply put, the longer employees work and the higher their ending salary (which reflects larger contributions paid by them) the greater their monthly retirement benefit.

Larger benefits, such as those retirees who receive an annual benefit of \$100,000 or more, are generally the result of those employees having very lengthy public service careers and who were typically highly compensated executives, such as school district superintendents, university professors, or top-tier administrators. This group represents approximately 0.19 percent of the ASRS retiree population.

The vast majority of ASRS retirees are government workers and school teachers who retire with a modest monthly benefit, and there are no provisions for automatic cost-of-living raises for retirees.

Issue B: Sustainability. Are traditional defined benefit plans such as the ASRS sustainable given today's economic climate?

ASRS response: Yes, the various ASRS plans are sustainable. The ASRS defined benefit pension plan, which provides for a lifelong income upon retirement, is funded through contribution rates that are actuarially determined each year. Some important points:

➤ **Employees pay 50 percent of the pension contributions.**

The current contribution rate is 9.6 percent of gross pay, paid by the employee and the employer. The ASRS is somewhat unique from other public pension plans and especially from private sector pension plans in that equal contributions – 50/50 – are required by both the employee and employer. In private sector pension plans, the employer typically pays for 100 percent of the benefit.

The contribution rate includes funding for the future pension benefit, a small portion to fund a pre-paid health insurance premium benefit, and a portion to pay down the plan's unfunded liability. Although contribution rates have risen over the past several years, due primarily to global investment conditions, they are projected to decrease in approximately seven to 10 years. It is reasonable to expect contribution rates to rise and fall in line with the investments.

➤ **The ASRS fund is professionally managed and well diversified.**

Currently, the ASRS funds have approximately \$26 billion. These assets are held in trust for the exclusive use of paying benefits and are professionally managed by ASRS investment staff and external money managers. Earnings on this fund are an integral part of funding future benefits.

➤ **The ASRS is recognized as a leader in pension plan and health care benefits funding.**

The Pew Center on the States, a division of the nonprofit Pew Charitable Trusts, in a comprehensive nationwide report earlier this year on public pension plans, labeled Arizona a "solid performer" and a "national leader" in managing long-term liabilities for public pension and retiree health care benefits.

Issue C: Plan design and cost savings. What has the ASRS done to ensure it is operating effectively and efficiently?

ASRS response: Since 2003, the ASRS has initiated and implemented a significant number of plan design modifications that have resulted in savings of \$4.6 billion to \$7.2 billion over the life of the plan.

These are enormous savings that would not have occurred if the ASRS had not acted prudently and swiftly years ago. Simply put, the ASRS is years ahead of many other pension plans in its pension and health insurance cost savings and funding strategies.

These initiatives have translated into actual dollars saved, and in future dollars to be saved, which are reflected in contribution rate savings. That is, had these initiatives not been enacted, ASRS members and employers would be funding a contribution rate that would be approximately three percentage points higher.

An ASRS Cost Savings Initiatives report was prepared by the ASRS actuary, Buck Consultants, and shows the various initiatives over the years, reductions in total contribution rates, and savings projections.

Click here <https://www.azasrs.gov/web/CostSavingsInitiatives.do> to view the ASRS Cost Savings Initiatives.

Issue D: Future Initiatives. What does the ASRS do to identify and address inequities and ensure fairness?

ASRS response: Each year prior to the Legislative session the ASRS reviews plan designs and works with the legislature to determine if state statutes would assist in improving efficiencies.

This coming legislative session the ASRS will once again be supporting a new state statute that would address what's commonly called "double dipping." The issue for the ASRS is the loss of a new person hired to fill the retired employee's position, and the loss of those contributions that were expected to come into the ASRS fund, particularly, the loss of the portion of the contribution rate that goes toward paying down the unfunded liability.

To capture that, the ASRS is proposing an alternate contribution rate the employers would be required to pay to the ASRS for any of their employees who collect their pension but return to work full time, a concept that has been brought to the legislature each year since 2008.

Issue E: Purpose. What is the purpose of the ASRS and what is its role in today's society?

ASRS response: It is important to note that the state retirement system was created with a primary goal as described in state law – Arizona Revised Statute §38-712 – to:

1. Provide an incentive in the recruitment and retention of employees of the highest possible quality.
2. Contribute toward providing a total compensation package that is generally equivalent to comparable employment in other public and private organizations in this state.
3. Provide a retirement system that encourages employees to remain in service for periods of time that will provide public employers with the full benefit of the training and experience gained by the employees.
4. Provide an orderly method of promoting and maintaining a high level of service to the public through an equitable separation procedure that is available to employees at retirement or on becoming disabled.
5. Provide a base retirement benefit that is less than one hundred per cent of a member's post-retirement income requirements, recognizing that personal savings and Social Security also contribute toward total post-retirement income requirements.

In summary

For more than 50 years, the ASRS has provided a retirement plan for Arizona's public servants. We regularly review the plan to ensure its fairness, sustainability, design and purpose. A number of modifications have been put in place over the years to ensure the plan remains fiscally sound.

We are proud to serve our members and this state and believe we are meeting our statutory obligations and our commitment to our members and retirees.

The ASRS welcomes a public dialogue on this important topic

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